



This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

Usage guidelines

Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

- + *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.
- + *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.
- + *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.
- + *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

About Google Book Search

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at <http://books.google.com/>

0

An American System of Finance ;

A BRIEF CONSIDERATION OF THE CURRENCY QUESTION.

BY

JOHN BRISBEN WALKER,

Editor of "THE REPUBLIC," Washington, D. C.

*science of political economy will get down that will perform as well as promise—a science
will rain the riches of Nature into the laps of the starving poor. MEN DO NOT YET DREAM OF
PROSPERITY WHICH IS IN STORE FOR ALL ORDERS OF THE PEOPLE."*—Sir John Barnard Biles.

WASHINGTON, D. C.

1878.

Econ 4618.78:40

HARVARD COLLEGE LIBRARY
GIFT OF THE
OVERSEERS COMMITTEE
TO VISIT THE
DEPARTMENT OF ECONOMICS 8

SEP 22, 1930

An American System of Finance.

THE NECESSITY FOR A RELIABLE AND UNFLUCTUATING CURRENCY.

Ten times within the hundred years which assure the brief period of this country's stence, the people have been subjected to ancial panics which have swallowed up savings of the rich and poor alike, and deprived them of at least one-half the wealth which their labors would otherwise have created.

These ten panics are each and every one ceable to this one cause,

AN IMPERFECT CURRENCY,

money which has been, at all times, either in excess or insufficient, or depreciated, subject to sudden contraction or otherwise unstable and uncalculated to perform functions required in a medium for the nsaction of business. The loss which has n suffered, through this lack of a currency based upon scientific principles, can y be estimated in its magnitude by the sent wealth of the country; the supposition being that at least one-half of the labor ch the population could have performed been lost through enforced idleness, or lack of mechanical assistance which only fal can provide.

It is manifest then, that there must have a some radical defect in the financial system, or rather systems, which have been folded, and it is equally manifest that if a em can be devised which will prevent kes and financial disturbances for the

future, the citizens of the United States may hope for a prosperity such as no people have ever enjoyed from the time that Adam and Eve were driven from the Garden of Eden, down to the present hour.

EXTRAORDINARY CONDITION OF AFFAIRS.

In the United States to-day, is to be found this remarkable combination of circumstances.

There is a country large enough and more than large enough for its inhabitants. Every man might occupy a farm and there would still be unoccupied prairies.

The land is not a poor land. Its soil will produce everything required for man's maintenance, and that abundantly.

The people are possessed of the perfection of labor-saving machines in their reapers and steam threshers, so that one may produce as much as hundreds can eat. A large part of the people are kept idle, and yet there is annually produced more flour, more corn, more vegetables, more pork and more of the necessities of life than the entire population can consume. To prevent waste, part of the flour has to be shipped abroad.

The country is rich not alone in its soil. There are iron mines, and the best apparatus for transforming the ore into pig-iron, and the pig-iron into all useful forms. Some people even claim there is an over-production of iron, meaning that there is more than can be used.

The forests abound in all kinds of useful and ornamental woods, and the sawing and planing machinery is so perfect, that the mills can turn out lumber faster than the carpenters can use it.

The carpenters and builders can construct in a year so many fine houses that a portion of them remain idle.

So much more cotton and wool are annually grown than can be used in clothing the people, that a portion is sent away to clothe the heathen in Asia.

Coal is so abundant and so accessible that one man can dig a hundred bushels in a day—enough in a day to supply his own wants for a year.

There are not only the necessities of life but the luxuries.

The silver and gold mines are amongst the richest in the world.

Steam power carries the inhabitants and their productions quickly and inexpensively from one part of the country to another.

What more could they wish? Food, clothing, homes, and automatic transportation, more than enough for the comfort of the entire population.

Nobody disputes these facts. Yet what is the situation to-day in this country, so filled with Nature's bounties?

There are a few wealthy. There are many with wealth acquired through years of toil, suffering a daily agony, in the fear that it will be swept from them. The other many, and the greater many, are in want—in many cases in absolute destitution and wretchedness.

It is said on good authority that there are to-day more than two millions of working men in this country, many of them with families to support, who are idle. Idle, not because they wish to be so, or are unwilling to work, but because they cannot get work.

They ask to be permitted to harvest these fields, to dig in these mines, to work in these shops. They are refused and forced into want and biting poverty. They need bread; there is none for them. They ask for clothes; there are none for them. When vegetables lie rotting in the over-supplied markets, there are none for them. Corn is so abundant that

it is reported that families in the West burn it for fuel this winter; but there is none for them. Cotton cloths have been made in such quantity that the makers cannot use them; there are none for them.

WHAT THEN IS THE MATTER?

Simply this: we have learned how to produce, that is, create wealth, but we have not studied the equally important problem of how to distribute it.

The distribution can only be accomplished through a medium of exchange at once sufficient, safe and stable. That, we have not got and have never had since the establishment of this government. Our money has been always of an uncertain fluctuating character, increasing and diminishing in quantity at the fickle will of legislators and bankers, and in this we may find the secret of all our trouble and distress, and the cause of the panics of 1809, 1814, 1819, 1825, 1834, 1837, 1841, 1857, 1861, and 1873.

It is the one obstacle, and until it is removed by legislation we must wait in vain for an era of lasting public prosperity.

IS PERFECT DISTRIBUTION POSSIBLE?

Can there be a money system invented which will supply all the wants of trade without the constant interference of Congress, and which will not be subject to the evils of depreciation, nor of uncalled-for inflation, nor contraction? Gold and silver do only exist in insufficient quantities for the purposes of money, but they possess other disadvantages which are gradually debarring them from the transactions of commerce. For instance, the wear and tear of coin in active circulation, has been determined to be nearly one per cent. per annum. An economic reason against their use is to be found in the fact that they do not merely represent the product of labor, but are the actual products themselves. So that if a ship goes down at sea, with six millions of gold and silver dollars on board, there has been lost the labor of one hundred thousand men for six days. That much actual work has been blotted out, disappeared—so that the loss of that vast army of men is good for nothing and mankind is nothing the better of the

bill. If, however, a ship with a like number of legal-tender notes on board had gone down, there would have been no real loss. No labor, except that required in printing the notes, would have been effaced. While an individual might suffer loss thereby, some other party would gain, and mankind at large would suffer no depreciation of wealth.

FAILURE OF PAPER MONEY IN THE PAST.

These, however, are merely minor points. The main objection to the use of coin, as money, is to be found in its scarcity. In all ages and at all times, it has been found necessary to resort to representatives of coin, in order to eke out the supply of the precious metals.

During the first eighty-five years of this country's history there was made a series of crude attempts to supply the place of coin with paper bills. They were all failures, because in every instance they lacked the first requisite of a sound paper currency--the endorsement of a strong government.

The system of paper instituted after the breaking out of the war of the rebellion, was likewise crude in its provisions, inasmuch as it lacked the essential of full legal-tender qualities. Nor was it based upon any firm, unchangeable principle which would ensure public confidence in its value and its continuance in any fixed amount per capita. The very words upon its face were a deception. It said "the United States will pay one dollar," when it should have said, "this note is receivable for all dues, public and private." It was in the nature of a bounty to speculators, to depreciate its value, and we ought not to wonder that its fluctuations should cover a range of figures from 100 to 285.

IMPOSSIBLE TO FIX THE VOLUME OF CURRENCY.

Is it possible to make a representative of value which shall measure wealth with unchanging accuracy? The volume of currency required for the purposes of trade is something beyond the power of the human brain to fix. Nothing but the wildest guess-work can be used with reference to it. It is like the volume of water flowing within the water-pipes of a great city. You look at the pipes.

You know their ramifications, and the directions whither they lead. There is a great engine at work supplying them, but you cannot tell by looking at the pipes whether they are ready to burst with the pressure within, or empty.

There is another respect in which the currency supply may be likened to the water-supply of a great city.

In former times a city could not have a water-works unless there was a hill near by upon which a great reservoir could be constructed, and the pressure regulated by gravity. After a time, machinery which pumped directly into the pipes was invented, and there was a gauge which indicated the pressure of the water. It was found, however, that the engineer in charge might be careless, or his judgment might be defective, and that as long as human judgment was depended upon to regulate the supply of water, serious mistakes were constantly occurring. Then one of the great engineers of this century conceived the idea of an automatic attachment which would make the water regulate itself, and that with a perfection which no human skill could ever rival.

SCIENCE MASTERS THE PROBLEM.

It is not more difficult to solve the problem of a currency supply than it was to solve the problem of a water supply for our cities.

Like the volume of our currency supplying the channels of commerce, the volume of water in the pipes of a great city is subject to changes. There are times when everybody in the city is using water. There are other times when almost no one is using it. The first essential is to have an engine strong enough to supply the greatest possible demand. But if, when night comes on and everybody has stopped using water, that engine should continue to pump a supply such as was required by the uses of the day, it is certain that there must be a leakage somewhere. The attachment is so arranged that when the demand decreases and the pressure in the pipes increases, the additional pressure per square inch raises a lever over a valve and the motion of this lever shifts a delicate pulley. The speed of the

engine is decreased, the supply of water is diminished. If a sudden demand is made on the pipes for water the decreasing pressure moves the lever in an opposite direction and the speed of the engine is increased.

A water works of this description (when the engine is propelled by water power) may run for a whole year without any attention upon the part of man, further than the oiling of the machinery. It does away with expensive reservoirs. It puts cities upon an equal footing, whether built upon plains or in valleys. It is efficient, simple, inexpensive, perfect. Modern science can solve the problem of money supply, as easily and as certainly as it has that of a water supply. When people talk about science being inapplicable to the money question they speak ignorantly.

A SELF-REGULATING CURRENCY.

A currency to be automatic in the regulation of volume must be inter-convertible with a Government bond.

The inter-convertible bond does for the volume of currency required to supply the channels of commerce, exactly what is done by the Holly water-works machinery in supplying the water pipes of a great city.

It gives a perfect currency, neither too great in volume nor too little, but supplying just the right amount to all parts of the country, at all times.

The plan by which it is proposed to accomplish this is as follows:

1st. The Government must issue in place of the present greenback a legal-tender note, which shall read: "*This bill, issued by the Government of the United States of America, is a legal tender for all dues, public and private, and the bearer is entitled to receive therefor, when presented in sums of \$25 or multiples thereof, at the Treasury or any of the Sub-Treasuries of the United States, a bond of the United States bearing four per cent interest, payable principal and interest in coin, as authorized by act of Congress.*"

2d. The Government must issue a bond bearing four per cent interest, payable quarterly, the principal being payable in

coin fifty years after date of issue, and bearing this inscription: "Upon presentation of this bond at the Treasury or any Sub-Treasury of the United States, the holder will be entitled to receive therefor its face value in legal-tender notes of the United States, and unpaid interest up to the close of the last fiscal quarter."

3d. Sub-Treasuries must be established at such convenient points throughout the country as will best facilitate the conversion of bonds into money and vice versa. Having done this, the United States would, practically, have resumed specie payments.

RESUMPTION OF SPECIE PAYMENT.

The present Secretary of the Treasury, has demonstrated that a United States four per cent bond is worth par in gold. The proposed *legal-tender* notes would be convertible into these four per cent bonds, and consequently equal to them. But the bonds are at par in gold; consequently the legal-tender notes must stand at par in gold, inasmuch as "things equal to the same thing, must be equal to each other." Here is the immediate resumption of specie payment.

Even if these notes were not convertible it is probable that being legal-tender for customs dues, the demand for gold being diminished, the speculators would no longer be able to maintain a premium on gold.

WHY IT CANNOT DEPRECIATE.

We now come to the consideration of this question. Supposing that the United States bills and National Bank notes now out, constitute a greater volume of currency than is required by the needs of business. Does not an excessive currency invariably depreciate in value?

Here is found the first advantage of the interconvertible bond. Money being too abundant, in order to dispose of it, the owner has only to carry it to the nearest sub-Treasury to convert it, at its face value, into an interest-bearing security worth par in gold. There is no commission to brokers—no loss by falling markets—no uncertainty about the investments; and the buyer knows that he may at any time get his money back in the same manner.

It becomes a self-evident fact that money under the interconvertible bond system can never be too abundant.

"But," some one may exclaim, "everybody will put their greenbacks into bonds, and the Government will consequently have to pay the interest on three or four hundred millions of dollars more than at present." If it were a supposable case, that the business of the country could be conducted without money, then it becomes necessary to calculate that the conversion of the present interest-bearing debt (which must follow the establishment of the interconvertible bond) from 4, 5 and 6 per cent bonds to 4 per cent bonds would still leave the interest paid by the Government, less in amount than now, even if every single greenback dollar should be so invested in bonds.

WOULD CURRENCY BECOME TOO GREATLY CONTRACTED ?

Next in order we have to consider: will not people prefer to invest their money in these interconvertible bonds, and so contract the currency to a limit, which will hamper business if not produce a panic and financial bankruptcy.

The answer is to be found in the different characters of people who own bonds, and the people who use currency.

The first class is made up either of people of wealth, not engaged in active business; or laborers who have no capital in business; or business men waiting for an opportunity to invest; or corporations. These compose the class which is content to let its money remain on interest at a low rate. The other class is made up of business men (merchants, manufacturers, miners, &c.,) who use capital to make an occupation for themselves and who expect to derive eight, ten, or even a greater per cent from the employment of their capital.

These men must have a certain amount of currency with which to buy goods, pay employees, &c. If money becomes scarce, its slightest pulsation would be felt by them. Over the country there would be an agitation like this, going on. A merchant needs money to buy goods; or a manufac-

turer, to pay his men on Saturday night. He cannot procure it, as usual, at the banks, because their vaults will be the first to indicate the tightening money market. But his neighbor has convertible bonds. He goes to him and offers six per cent for a loan of say \$10,000. His neighbor says, "No, I would prefer to have my money in Government bonds at four per cent." He then offers eight, with good security. The difference between four per cent and eight per cent is a sufficient inducement for the neighbor to convert his bonds and make the loan. This transaction, with slight variations, takes place in perhaps ten thousand places. That gives an increase of one hundred millions of dollars, and the volume of the currency is regulated to the necessities of business.

PANICS BECOME IMPOSSIBILITIES.

If money becomes too plentiful, then the borrower finding that he has more than he can use, or that his bank will accommodate him at lower rates, goes back to the lender and says: "Take back five thousand dollars and return my securities," and the lender, in nowise troubled to find an investment, takes the \$5,000 back to the sub-Treasury and gets his four per cent bonds. Meanwhile the Government has been saving the interest on \$5,000.

One of the arguments used against the interconvertible bond is that a combination of Wall street speculators could, at any time, lock up a hundred million of legal-tender notes and thereby create a panic. That is just what they have in their power to do now, and a panic is the inevitable result of such action; but under the convertible bond system it would not matter if they should lock up twice that amount. The vacuum would be filled from private sources by the process we have just explained.

There would always be a vast body of currency representing the two thousand millions of the public debt ready to supply any deficiency in the circulating medium.

A SAFE SAVINGS BANK.

The next advantage would be, that the public debt, instead of being owned abroad,

would be held at home, and gold, instead of being sent to Europe, would become a drug on our markets, unless radical changes take place in the present trade relations between this country and Europe.

There is another advantage which would result from this system, which ought to be sufficient in itself to cause universal demand for its adoption. The interconvertible bond system is practically the English postal savings bank system, which has been for some time in successful operation. It gives the poor a savings bank which cannot fail, and which cannot be affected by runaway cashiers, dishonest directors, or ill-advised investments. The poor man puts his savings in a Government bond and his principal and interest are safe; and he can withdraw both as easily as from an ordinary savings bank.

While the crash of rotten savings banks is to be heard from one end of the country to the other, one would suppose that popular feeling would demand the establishment of some secure institution. Yet, strange to say, the strongest opposition to the interconvertible bond arises from this cause, the savings banks recognizing that the interconvertible bond adopted' their business is forever gone.

THE RESULT OF ITS ADOPTION.

By those who understand its workings this is believed to be the first and only plan ever invented to regulate the currency supply. That it will do all that is here claimed, we have never heard any one attempt to contradict. The only unfortunate characteristic about the matter is that very few persons have attempted to make themselves familiar with its details. The time is approaching

when it will not be in the power of an to retard a measure so vitally essential to public and private property. The success which is now being endured by all classes the people is causing them to examine more seriously into the causes of their distress. Every intelligent and unprejudiced man examines the convertible bond system and becomes a convert to the theory. He teaches others and influences some who are capable of comprehending. It is only a question of time.

A distinguished English economist has declared that "Mankind does not dream of prosperity which is yet in store for all of the people." To attain a prosperity paralleled in the history of the world need but to remedy our financial system. With no defect in our medium of exchange to clog the wheels of commerce there is no reason why every man in the United States who wishes to work, should not find profitable employment. With every man employed the production of wealth, aided by natural advantages and modern invention, would be enormous. "Ah! but you will then have an 'overproduction,'" cries the croak. That, we reply, is an impossibility, every man, woman and child within our country is housed in a comfortable dwelling, clad in comfortable clothes, furnished with proper food, and able to give from the fruits of labor a reasonable time to the cultivation of their minds. Having that, we shall have that social prosperity which Victor Hugo describes as

"Man Happy—The Citizen Free—The Nation Great."

JOHN BRISBEN WALKER